



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 6, 2000

### **H.R. 4530**

### **New Markets Venture Capital Program Act of 2000**

*As ordered reported by the House Committee on Small Business on May 25, 2000*

#### **SUMMARY**

H.R. 4530 would authorize appropriations for fiscal years 2000 through 2005 for the New Markets Venture Capital (NMVC) program within the Small Business Administration (SBA). This program would provide federal loan guarantees to venture capital corporations that invest in small businesses located in low-income and moderate-income communities. The bill would authorize the appropriation of \$30 million for technical assistance grants and such sums as may be necessary to cover the subsidy costs of such loan guarantees. SBA could make commitments to guarantee loans only to the extent that the total loan principal, any part of which is guaranteed, would not exceed \$150 million or the amount specified in appropriation acts.

CBO estimates that implementing H.R. 4530 would cost a total of \$47 million over the 2001-2005 period, assuming appropriation of the necessary amounts. Because H.R. 4530 would not affect direct spending or receipts, pay-as-you-go procedures would not apply. H.R. 4530 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the cost of the mandate would not be significant. The bill does not contain any new private-sector mandates.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

For this estimate, CBO assumes that H.R. 4530 will be enacted in fiscal year 2000 and that funds will be provided for its implementation each year. The estimated budgetary impact of H.R. 4530 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
Spending for NMVC Under Current Law						
Budget Authority <sup>a</sup>	15	0	0	0	0	0
Estimated Outlays	3	9	2	b	0	0
Proposed Changes						
Estimated Authorization Level	0	18	17	5	5	5
Estimated Outlays	0	11	16	9	6	5
Spending Under H.R. 4530						
Estimated Authorization Level <sup>a</sup>	15	18	17	5	5	5
Estimated Outlays	3	20	18	9	6	5

a. \$15 million is the amount appropriated for fiscal year 2000.

b. Less than \$500,000.

## BASIS OF ESTIMATE

The NMVC program would be authorized for six years (fiscal years 2000 through 2005), with appropriations limited to \$30 million for technical assistance and such sums as necessary to subsidize and administer up to \$150 million in NMVC loan guarantees. For this estimate, CBO assumes SBA would guarantee 100 percent of any loans under this program.

CBO estimates that H.R. 4530 would authorize the appropriation of an additional \$50 million over the 2001-2005 period for the NMVC program. This cost reflects the difference between the total amounts authorized in the bill and the \$15 million appropriated for the current year. Specifically, H.R. 4530 would authorize the appropriation of up to \$30 million over the 2000-2005 period for technical assistance, which is \$21 million more than has been appropriated for fiscal year 2000. In addition, CBO estimates that it would cost about \$30 million to subsidize \$150 million in NMVC loan guarantees, which is \$24 million more than was appropriated for NMVC subsidies in fiscal year 2000. Finally, experience with other SBA programs suggests that it would cost an average of about \$1 million a year to administer the program, net of any examination fees paid by borrowers.

CBO estimates that the subsidy cost of the NMVC program would be about 20 percent of the amount guaranteed. We based this estimate on trends in defaults and recoveries for

similar SBA programs and on information regarding the likely terms and conditions of the guarantees. Experience with other programs suggests that NMVC borrowers would default on about 45 percent of guaranteed loans. In the event of a default, CBO expects that the agency would liquidate the NMVC investments and that recoveries would average about 50 percent of the loan balance three years after default. Information from the Office of Management and Budget suggests that SBA would allow borrowers a grace period of five years during which they would not pay interest; instead, such interest would be added to the outstanding debt. Because H.R. 4530 would authorize SBA to guarantee up to \$150 million of loans, we estimate that this program would require the appropriation of about \$30 million for credit subsidies.

**PAY-AS-YOU-GO CONSIDERATIONS:** None.

## **IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS**

H.R. 4530 would preempt state laws by prohibiting states from limiting SBA's ability to exercise its ownership rights in certain debentures issued by a New Markets Venture Capital company. Such a preemption of state law is an intergovernmental mandate as defined in UMRA, but CBO estimates that this mandate would impose no significant costs on state, local, or tribal governments.

## **IMPACT ON THE PRIVATE SECTOR**

This bill contains no new private-sector mandates as defined in UMRA.

## **PREVIOUS CBO ESTIMATE**

On June 26, 2000, CBO transmitted a cost estimate for H.R. 2848, the New Markets Initiative Act of 1999, as ordered reported by the House Committee on Banking and Financial Services on April 13, 2000. H.R. 2848 would authorize loan guarantees under the NMVC program of up to \$100 million, and technical assistance to borrowers. CBO estimated those provisions would cost \$40 million over the 2001-2005 period.

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